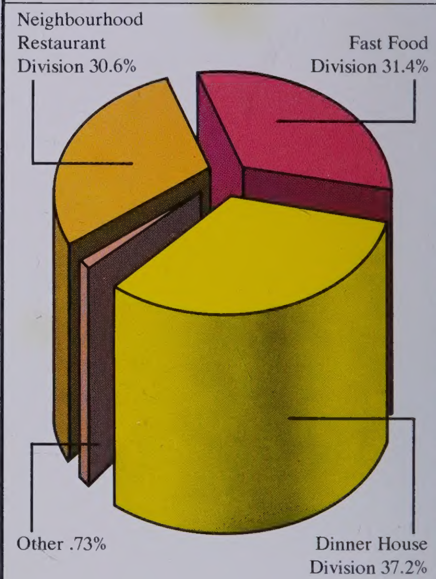
Controlled Foods International Ltd.

ANNUAL REPORT 1979

Financial Highlights

	(000's eliminated) 1979	1978
Revenues	$56,685	$54,039
Income before extraordinary item	796	1,751
Net income for year	524	1,751
Funds from operations	1,460	2,910
Total assets	23,936	24,559
Shareholders' equity	8,412	7,789
Per share:		
Income before extraordinary item	$.41	$.93
Net income for year	.27	.93
Funds from operations	.76	1.54
Shareholders' equity	4.36	4.08
Number of restaurants at year-end:		
A&W's	39	40
Fuller's	23	23
Corkscrew's	13	11
Other	14	15
	89	89

SALES BY DIVISION — 1979



Fast Food Division	$17,491,000
Dinner House Division	$20,751,000
Neighbourhood Restaurant	$17,037,000
Other	$410,000
	$55,689,000

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President's Report

I am pleased to once again assume the position of President and Chief Executive Officer of the Company. Those who know me will feel assured I will do my best to see the Company remains a progressive and profitable enterprise.

The financial portion of this report will tell you the Company did not enjoy its best year. The Company, in fact, had a marginal increase in revenue while recording a substantial drop in earnings. The reduction in earnings was due to increased head office overhead costs plus increased costs in the Fuller's Division in its move to re-position itself in the marketplace. The other divisions of the Company performed according to plan.

Mr. Main indicated to you in last year's report that the Company had set certain objectives; those objectives have not changed. We still plan to become "The Best Restaurant Company in Canada".

We intend to meet this goal by improving each of the divisions we operate. How this will be accomplished is outlined in greater detail in the divisional reports.

Briefly, in the A&W division, we intend to close units that remain remote to centralized supervision and contribute little to profits. We intend to offset these closings by upgrading our present units and building new units in markets where we are strong.

In the Corkscrew division, we plan to expand. One unit is presently under construction in British Columbia, and several other parcels of property have been secured for this purpose. Modification of building plans is well under way and efficiencies have been implemented to improve operating margins.

In the Fuller's Division we are proceeding according to plan to reposition ourselves in the marketplace. Our plan remains to move out of the 24-hour coffee-shop type business. We will upgrade our premises, limit our hours of operation, improve the quality of our menu and re-position ourselves as a neighbourhood restaurant.

A key, I feel, to the improvement of all divisions is a general corporate re-structuring which will see Controlled Foods a less centralized company in the future. The upgrading of all Division heads to the title of "President" is more than a symbolic gesture. Along with the new title will also go the responsibility of chief operating officer.

In summary, I wish to restate my enthusiasm for the challenge ahead and to share with you the optimism I have for the Company.

L. E. Fuller,
President and Chief Executive Officer.
April 30, 1980.

Fast Food Division

I'm pleased to report that the past year was our best ever in terms of comparable unit sales and earnings. I would also like to acknowledge the fine contribution of our Management and Employees whose performance have made these accomplishments possible. Sales for the 52 units in this division were $17.5 million and profits were $1.6 million.

Important to note is that this record performance came in the face of two difficult factors — increases in the cost of beef and the ever worsening energy pinch. These two factors compelled management to sharpen their pencils to improve the profitability of the division without compromising either quality or value to the customer. This we were able to accomplish.

Though moderate customer declines were experienced from the previous year, 1979 sales revenue for comparable units was up 6.3% and net earnings were up 7.7%. And while beef costs rose some 50% over the year, we were able to institute minimum price increases, due largely to improved purchasing methods, without sacrificing quality. This is a source of particular pride for us all, as our customers have come to expect through good times and bad, both value and quality from our fast food outlets.

Among the year's highlights in the division was the continuation of an aggressive advertising campaign. It featured several very successful and innovative promotions, including the popular 5¢ Root Beer sale.

As for 1980, we intend to convert some A&W's to inside seating facilities in response to the market's increasing demand for pleasant atmosphere, menu variety and continued emphasis toward a high value experience.

The following programs will assist us in achieving our 1980 objectives:

- The A&W "Eatery" program comprises four test units across Canada designed with drive-through windows and an inside area featuring about 135 seats, warm decor, and a varied menu including a soup and salad bar, quiche and carrot cake, and an innovative and exciting hamburger offering. We intend to proceed with at least one such unit in 1980.
- Controlled Foods is also participating in one of four test units in A&W's "Drive-In Re-stage" program. In the test unit, new pricing and menu items like mushroom burger, and mozzarella and bacon burger will be tested, as well as retaining most of the old favourites from the current menu.
- Your company will also be looking to more outlets in shopping centres. The "food fair" units have proven very successful for many operators and we have 12 such outlets presently, and one under construction in Edmonton.

With these programs underway, and a profitable year behind us, we look forward to an even better performance during 1980 in the Fast Food Division.

Stephen A. MacIntyre,
President, Fast Food Division.

Neighbourhood Restaurant Division

The steady deterioration of profits that began to show in the last quarter of 1978 continued uninterrupted through 1979, and directly contributed to a substantial portion of the decrease in company profits last year, has bottomed, and I am pleased to report that the turn-around we expected through the various changes made in the Fuller's program, has begun to occur.

We are most encouraged by the result achieved in the first quarter of 1980 in the Calgary marketplace, where all stores have undergone all steps necessary to qualify them for the new Fuller's concept. Sales and profit margins for these units are the best in the division and for the past three months, have improved considerably. We have taken our first steps to continue our renovation program by extending it to the East, where one unit in Ontario is undergoing renovation to be followed by other stores in Edmonton and so on, until the entire program is completed.

This has been a difficult year for this division of your Company. Both management and staff co-operation have been required in order to achieve the progress recorded to date. I certainly want these people to know that I appreciated their efforts and, along with them, look forward to our even more successful future.

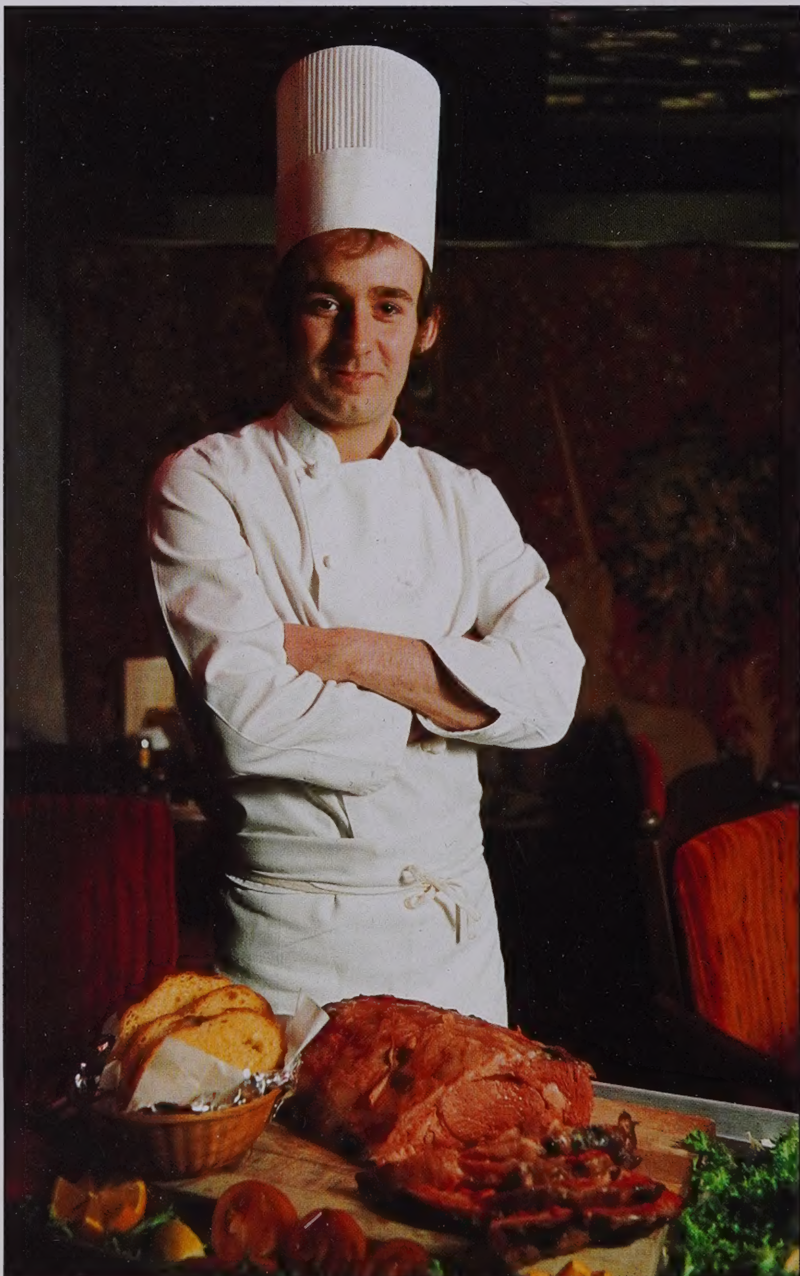
It is not an easy task to take a concept, reduce its hours of operation, change the menu and decor, re-orientate your staff and instantly convince the marketplace that you are a new and different type restaurant. However, all indications lead us to believe we are going to be successful.

There is still plenty of work and problems to overcome, but as the saying goes, we can see the light at the end of the tunnel. As shareholders, you can look forward to improved volumes and profit margins in the future.

Stan Fuller

Stanley E. Fuller,
President,
Neighbourhood Restaurant Division.

Dinner House Division



Our Corkscrew restaurants enjoyed a good year in spite of the fact that net earnings remained substantially the same. Sales were up 21.5% from the previous year but net earnings were affected by the opening of new restaurants in Oakville and Ottawa, which did not contribute to earnings and had start-up costs totalling $135,000.

We tried something new in 1979. First, prices and menu selection, once uniform across the country, were adjusted according to local market conditions and allowed us to select products to suit our customers' demands on a more regional basis. Second, new items were added to the Lunch, Brunch, and Dinner menus; luncheon changes included home-made style pot pies and crepes; dinner specials featured such dishes as roast duck, rabbit, double cut pork chops, and daily fish items. All restaurants now serve a luncheon buffet and the ever-popular family Sunday brunch. Third, efforts were made to enhance the experience of the Corkscrew by introducing entertainment in selected units. All of these decisions have proven to be popular with the customers.

In 1980, we plan to develop more closely the theme concept of the Corkscrew; making this even more authentic by refining our decor, menu, and the uniforms. We will be testing a medieval-style feast to recapture the dining style of those times. Our restaurants will become not only more fun, but with our current research and development, more historical and educational.

We are also developing a smaller Corkscrew prototype restaurant. The new prototype unit has been reduced in size to improve operating cost efficiency, and be viable in smaller communities.

Your newest Corkscrew restaurant will open in July 1980 in Port Coquitlam; your Company's second Corkscrew in British Columbia. Development and expansion is underway in Surrey, B.C.; Windsor and Toronto, Ontario; and Seattle, Washington.

Projections point to continued growth in the Dinner House Division as increased dollars are being spent in fine food restaurants. With our reputation for high-quality food and atmosphere at a reasonable price, Corkscrew Restaurants are firmly positioned in the marketplace to offer customers full value for their dollars.

I would like to welcome the employees who joined us during the year and also to recognize the contribution made by management and staff to the success of the Dinner House Division in 1979.

M J Fuller

Michael J. Fuller,
President, Dinner House Division.

Consolidated Balance Sheet

December 31, 1979 and 1978

Assets	1979	1978
CURRENT:		
Cash and term deposits	$ 69,823	$ 2,253,446
Notes and accounts receivable (note 2)	451,522	674,067
Income taxes recoverable	272,169	
Inventory	1,892,258	1,481,719
Prepaid expenses and deposits	47,001	53,920
Total current assets	2,732,773	4,463,152
NOTES AND ACCOUNTS RECEIVABLE (note 2)	141,139	266,289
INVESTMENTS IN JOINT VENTURES (note 3)	174,684	296,999
FIXED (note 4)	20,682,484	19,319,030
FRANCHISES AND OTHER	204,693	213,577
	$23,935,773	$24,559,047

On behalf of the Board:

Director

Director

(See accompanying notes)

Statement 1

Liabilities and Shareholders' Equity	1979	1978
CURRENT:		
Bank indebtedness		$ 126,241
Accounts payable and accrued charges	$ 3,896,795	3,248,482
Income and other taxes payable		1,116,237
Current portion of capital leases (note 5)	10,766	
Current portion of long term debt (note 6)	1,209,345	1,241,733
Total current liabilities	5,116,906	5,732,693
LONG TERM DEBT (note 6)	7,746,580	10,062,512
OBLIGATIONS UNDER CAPITAL LEASES (note 5)	1,815,993	
DEFERRED INCOME TAXES	843,931	975,031
SHAREHOLDERS' EQUITY:		
Share capital (note 7) —		
Authorized:		
4,000,000 shares without par value		
Issued:		
2,763,166 shares (1978 — 2,746,500 shares)	3,764,630	3,664,634
Retained earnings (statement 2)	6,575,854	6,052,298
	10,340,484	9,716,932
Less 835,600 shares acquired and held by the company at cost	1,928,121	1,928,121
	8,412,363	7,788,811
	$23,935,773	$24,559,047

Consolidated Statement of Income and Retained Earnings

Years ended December 31, 1979 and 1978 — **Statement 2**

	1979	1978
REVENUES:		
Sales	$55,689,402	$53,655,445
Other (note 8)	995,975	383,938
	56,685,377	54,039,383
EXPENSES:		
Cost of sales	20,979,857	19,655,013
Depreciation and amortization	1,406,949	1,389,362
Selling, operating, general and administrative expenses	31,975,591	28,561,966
Interest —		
Long term debt	1,252,847	1,258,141
Other	97,227	52,931
	55,712,471	50,917,413
Income before income taxes and extraordinary item	972,906	3,121,970
Income taxes (note 9):		
Current	367,235	1,456,080
Deferred (recovery)	(190,400)	(85,002)
	176,835	1,371,078
Income before extraordinary item	796,071	1,750,892
Loss on sale of hotel division	272,515	
NET INCOME FOR YEAR	523,556	1,750,892
Retained earnings, beginning of year	6,052,298	6,676,682
	6,575,854	8,427,574
Dividends (per share — 1978 — $1.15)		2,172,335
Tax on 1971 undistributed income on hand		202,941
		2,375,276
RETAINED EARNINGS, END OF YEAR	$6,575,854	$6,052,298
Net earnings per share (note 11):		
Before extraordinary item	$.41	$.93
After extraordinary item	$.27	$.93

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1979 and 1978 — Statement 3

	1979	1978
SOURCE OF FUNDS:		
Operations —		
Income for year before extraordinary item	$ 796,071	$1,750,892
Charges (credits) not representing an outlay (receipt) of funds:		
Depreciation and amortization	1,406,949	1,389,362
Deferred income taxes	(190,400)	(85,002)
Gains on disposal of fixed assets	(723,772)	(165,502)
Share of losses in joint ventures	171,480	20,000
Total funds from operations	1,460,328	2,909,750
Obligations incurred under capital leases (note 5)	1,831,453	
Income taxes relating to sale of hotel division	(53,000)	
Common shares issued (note 7)	99,996	142,500
Decrease in long term receivables	125,150	
Proceeds on disposal of fixed assets	6,523,624	1,066,922
Decrease in other assets		533,113
Long term debt financing	2,267,750	450,000
	12,255,301	5,102,285
APPLICATION OF FUNDS:		
Fixed assets acquired	6,876,037	1,216,770
Dividends		2,172,335
Increase in other assets	5,865	208,000
Investments in joint ventures	49,165	15,066
Repayment of obligations under capital leases (note 5)	15,460	
Reduction in long term debt	4,591,913	1,491,451
Tax on 1971 undistributed income on hand		202,941
Capital leases acquired (note 5)	1,831,453	
	13,369,893	5,306,563
Increase in working capital deficiency	1,114,592	204,278
Working capital deficiency, beginning of year	1,269,541	1,065,263
Working capital deficiency, end of year	$2,384,133	$1,269,541

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1979

1. Accounting policies —

The following is a summary of significant accounting policies used in the preparation of these financial statements.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the company and all subsidiary companies. Investments in joint ventures are accounted for on the equity basis.

(b) Inventory:

Inventories of food and packaging are valued at the lower of cost and net realizable value.

(c) Depreciation and amortization:

Depreciation is computed on the straight-line basis over the estimated useful life of the assets at rates varying from 5% to 20%. Leasehold improvements are amortized over the life of the applicable lease.

Amortization of other assets:

Franchises are amortized on a straight-line basis over the terms of the contractual agreements ranging from fifteen to twenty years.

(d) Income taxes:

In accounting for income taxes the companies follow the tax allocation method in which the major timing difference relates to the depreciation of fixed assets.

2. Notes and accounts receivable —

Included in current and long term notes and accounts receivable are amounts due from shareholders, officers, and directors of $147,834 (1978 — $409,771)

3. Investments in joint ventures —

Investments in joint ventures comprise:

	Investment	Accumulated net losses	Balance December 31 1979	Balance December 31, 1978
Battlefield Holdings — 25%	$102,825	$ 73,255	$ 29,570	$ 41,525
Parkway Plaza — 33-1/3%	254,270	149,405	104,865	213,009
T.P.S. Holdings — 50%	45,765	5,516	40,249	42,465
	$402,860	$228,176	$174,684	$296,999

The company's share of the losses in joint ventures for the year ended December 31, 1979 amounts to $171,480 (1978 — $20,000) (see note 8).

4. Fixed assets —

Fixed assets are carried at cost and comprise:

	Cost	Accumulated depreciation and amortization	1979 Net value	1978 Net value
Buildings	$ 6,726,552	$ 1,656,466	$ 5,070,086	$ 5,426,187
Equipment, signs, fences and paving	7,851,082	3,859,554	3,991,528	3,423,514
Leasehold improvements	8,652,479	1,720,687	6,931,792	6,251,354
	23,230,113	7,236,707	15,993,406	15,101,055
Land	4,689,078		4,689,078	4,217,975
	$27,919,191	$ 7,236,707	$20,682,484	$19,319,030

5. Leases —

Leases capitalized and included in fixed assets by the company at December 31, 1979 under capital leases are as follows:

Buildings	$1,831,453
Less accumulated amortization	27,198
	$1,804,255

Future minimum lease payments under the above capital leases together with the related present value as at December 31, 1979 are as follows:

Total minimum lease payments	$5,752,670
Less amounts representing interest	3,925,911
Present value of minimum lease payments	1,826,759
Less amounts due in one year	10,766
	$1,815,993

Minimum lease payments for the succeeding five years are as follows:

1980 — $255,000
1981 — $255,000
1982 — $255,000
1983 — $255,000
1984 — $255,000

The company also leases property and equipment under leases, which are classified as operating leases with varying terms up to a maximum of twenty-five years with rentals varying in some instances with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the succeeding five years are as follows:

1980 — $2,836,000
1981 — $2,801,000
1982 — $2,684,000
1983 — $2,484,000
1984 — $2,331,000

Included in the above commitments are leases which had they been entered into subsequent to January 1, 1979, would be required to be recorded as capital leases under current accounting principles. The effect on the company's financial statements had the leases been capitalized retroactively is as follows:

Increase in capital leases — net of accumulated amortization	$ 4,648,000
Increase in current liabilities	$ 516,000
Increase in long term obligations	5,203,000
Decrease in shareholders' equity	(1,071,000)
	$ 4,648,000

Had the leases been retroactively treated as capital leases, the income for 1979 would have been decreased by $198,000.

6. **Long term debt** —

Long term debt consists of:

	1979	1978
Bank loan—with interest at 1½% over the bank's prime rate, repayable in quarterly instalments of $94,490 beginning September 30, 1981 with the balance due March 31, 1987	$ 2,267,750	
Bank loan—with interest at 1½% over the bank's prime rate, repayable in monthly instalments of varying amounts with the balance due January 31, 1983	1,494,660	$ 1,975,992
Bank loan—with interest at 1½% over the bank's prime rate, repayable in monthly instalments of varying amounts with the balance due June 1, 1983	2,099,306	2,519,171
Mortgages and agreements—with interest rates from 8-3/4% to prime plus 2½% and maturing at various dates to March 2006, with land and buildings pledged as collateral	2,704,392	6,370,274
Land purchase commitment—due March, 1993	250,000	250,000
Notes payable—due at various dates to March 1982, with certain equipment pledged as collateral	139,817	188,808
	8,955,925	11,304,245
Less amounts due within one year	1,209,345	1,241,733
	$ 7,746,580	$10,062,512

Principal amounts repayable over the next five years are as follows:

1980 — $1,209,345
1981 — $2,183,000
1982 — $2,017,000
1983 — $1,444,000
1984 — $ 401,000

The company has assigned as collateral for its bank indebtedness a registered demand debenture in the amount of $15,000,000 providing fixed and floating charges against the assets of the company and its subsidiaries.

7. **Share capital** —

During the year the company issued 16,666 common shares for a total cash consideration of $99,996.

8. **Other revenue** —

Included in other revenue of $995,975 on statement 2 (1978 — $383,938) are gains on the sale of fixed assets amounting to $723,772 (1978 — $165,502). Also included is the share of losses in joint ventures referred to in note 3.

9. **Income taxes** —

The income tax provision of $176,835 differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of 48% to the income before income taxes. The difference results from the following items:

	Amount	% of earnings before extraordinary item
Computed "expected" tax expense on income before income taxes of $972,906	$ 467,000	48%
Non-taxable portion of gain on sale of fixed assets	(205,000)	(21.1)
Inventory allowance	(26,000)	(2.7)
Manufacturing and processing deduction	(20,000)	(2.0)
Other	(39,165)	(4.0)
Income tax provision	$ 176,835	18.2

One of the company's subsidiaries has differences in timing of expenses for income tax and financial reporting purposes relating primarily to the depreciation of fixed assets. The estimated tax benefit of $260,000 resulting from these timing differences has not been recorded in the accounts as realization is not reasonably assured.

10. **Statutory information** —

Remuneration of directors and senior officers (as defined by The British Columbia Companies Act) amounted to $506,658 (1978 — $496,889).

11. **Per share calculation** —

Earnings per share have been calculated using the monthly weighted average number of shares outstanding during the year.

12. **Commitments** —

At December 31, 1979 certain subsidiary companies have commitments for construction projects totalling $1,224,000.

13. **Contingent liability** —

The company is contingently liable in the amount of $636,652 as a guarantor of the bank loans of the joint ventures referred to in note 3 and in the amount of $29,774 in respect of their letters of credit and other obligations.

Auditors' Report

To the Shareholders of Controlled Foods International Ltd.:

We have examined the consolidated balance sheet of Controlled Foods International Ltd. as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other auditors for joint ventures accounted for on the equity basis.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting for leases referred to in note 5 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada,
March 7, 1980.

Clarkson Gordon
Chartered Accountants

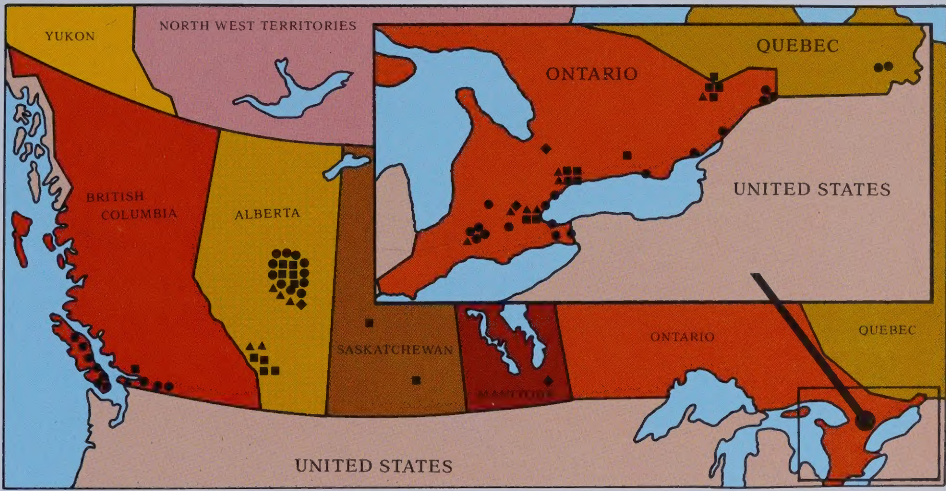
Five Year Statistical Review

(000's eliminated)

	1979	1978	1977	1976	1975
Sales	$55,689	$53,655	$46,495	$35,284	$33,054
Other Income	996	384	301	163	81
	56,685	54,039	46,796	35,447	33,135
Cost of Sales	20,980	19,655	17,048	12,389	11,497
Operating Expenses	31,975	28,562	25,424	19,345	18,246
	52,955	48,217	42,472	31,734	29,743
Operating Profit	3,730	5,822	4,324	3,713	3,392
Depreciation and amortization	1,407	1,389	1,226	910	829
Interest	1,350	1,311	1,314	876	705
	2,757	2,700	2,540	1,786	1,534
Income before income taxes	973	3,122	1,784	1,927	1,858
Income taxes	177	1,371	644	702	836
Income before extraordinary item	796	1,751	1,140	1,225	1,022
Extraordinary item	(272)	–	264	–	–
Net income for year	$ 524	$ 1,751	$ 1,404	$ 1,225	$ 1,022
Average number of shares outstanding	1,922	1,887	1,882	1,864	2,004
Earnings per share before extraordinary item	$ .41	$ .93	$ .60	$ .66	$ .51
Earnings per share	$ .27	$ .93	$ .75	$ .66	$ .51

Restaurant Locations

● A&W's
■ FULLER'S
▲ CORKSCREW
◆ OTHER



A&W DRIVE-INS

Alberta:
Edmonton — 11

British Columbia:
Abbotsford — 1
Campbell River — 1
Chilliwack — 1
Courtenay — 1
Duncan — 1
Haney — 1
Nanaimo — 1
Victoria — 3

Ontario:
Brockville — 1
Cornwall — 2
Kingston — 1
London — 4
Niagara Falls — 1
Oakville — 1
Port Credit — 1
St. Catharines — 1
Stratford — 1
Trenton — 1
Welland — 1
Woodstock — 1

Quebec:
Sherbrooke — 2

CORKSCREW RESTAURANTS

Alberta:
Edmonton — 3
Calgary — 2

Ontario:
Hamilton — 1
Kitchener — 1
London — 1
Oakville — 1
Ottawa — 1
Toronto — 2

British Columbia:
Richmond — 1

FULLER'S RESTAURANTS

Alberta:
Calgary — 4
Edmonton — 5

British Columbia:
Vancouver — 1

Ontario:
Hamilton — 2
Ottawa — 3
Peterborough — 1
Toronto — 4

Quebec:
Hull — 1

Saskatchewan:
Regina — 1
Saskatoon — 1

MISSISSAUGA'S SQUARE ONE SHOPPING CENTRE

(Serviced by 10 fast food bars) in addition to Fuller's, Corkscrew, and Buffalo Bill's.

OTHER RESTAURANTS

Buffalo Bill's:
Mississauga — 1

Jerry's Malt Shop:
Kitchener — 1

Hickory House:
Winnipeg — 1

Leroy's:
Edmonton — 1

Corporate Information

DIRECTORS:
Kenneth A. Fowler
LeRoy E. Fuller
Joseph C. Murphy
Robert R. Roe

OFFICERS:
Chairman of the Board, President and Chief Executive Officer,
LeRoy E. Fuller

Vice President and Secretary-Treasurer,
Robert R. Roe

Vice President — Finance and Administration,
David A. Bennett

Vice President,
D. Glen Neil

President — Neighbourhood Restaurant Division,
Stanley E. Fuller

President — Fast Food Division,
Stephen A. MacIntyre

President — Dinner House Division,
Michael J. Fuller

AUDIT COMMITTEE:
Kenneth A. Fowler
Joseph C. Murphy

HEAD OFFICE:
Suite 226-4664 Lougheed Highway,
Burnaby, B.C., Canada V5C 4A4

SOLICITORS:
Davis & Company

TRANSFER AGENT:
Canada Permanent Trust Company

AUDITORS:
Clarkson Gordon

BANKERS:
The Mercantile Bank of Canada

STOCK LISTING:
The Toronto Stock Exchange
Symbol: CFS